

Homes for Londoners Overseas Investment Sub-Group Consolidated research summary report

Executive summary

1. This report summarises the findings of research commissioned by the Greater London Authority (GLA) in late 2016 to look into the issue of overseas investment in London's residential property market. The final reports from the two projects, along with research brief, are attached to this report as appendices.

The research

2. The GLA commissioned research to address four questions:
 - i. What proportion of new homes is sold to buyers who are resident overseas?
 - ii. What proportion of new homes is kept empty and how many of these are owned by foreign buyers?
 - iii. How reliant is development viability on sales to overseas buyers?
 - iv. How does overseas financing of development contribute to housing supply?
3. The brief specified that the research should focus on new build homes in London and that, for the purposes of the research, an overseas buyer was someone resident overseas at the time of purchase. This could include UK citizens buying a home from abroad before coming to live in London and exclude a foreign national resident in London buying a family home.
4. Following a procurement exercise, two universities were asked by the GLA to undertake the commission – the London School of Economics (LSE) and the University of York.
5. The LSE was asked to investigate the four questions of the research brief to provide an overarching perspective on the issue. The LSE research brought together evidence from three sources: a literature review of academic literature, market commentary and other sources; qualitative data from major estate agencies and industry research bodies; and structured interviews with developers, financiers, managers of developments and others, as well a survey of the London group of the House Builders Federation.
6. The University of York was asked to support the LSE's work and undertake more quantitative research into the first two questions of the brief through an analysis of Land Registry records. The University purchased 8,000 Land Registry titles of new build property sales over £200,000 in London between April 2014 and March 2016. Records were obtained for every London borough, and the sample was weighted to reflect the scale of housing delivery in different parts of London, with boroughs divided into four categories to aid this analysis. These categories, set out in Table 1 below, reflected the nature and scale of development in different boroughs across London.

Table 1 – Categorisation of boroughs by area

Category	Boroughs
Prime London	City of London, City of Westminster, Kensington & Chelsea
New Growth	Camden, Greenwich, Lambeth, Newham, Southwark, Tower Hamlets, Wandsworth
Inner London	Hackney, Islington, Lewisham, Hammersmith & Fulham
Outer London	Barking & Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Haringey, Harrow, Havering, Hillingdon, Hounslow, Kingston upon Thames, Merton, Redbridge, Richmond upon Thames, Sutton, Waltham Forest.

7. The titles were analysed to assess the proportion of sales that recorded an overseas address for the purchaser, and the price and the location of those sales, with use of an overseas address for a purchaser taken as a proxy for that person being an overseas buyer. Using a commercial database, the University then undertook analysis of the level of occupancy of those homes.

Research findings

- i. What proportion of new homes is sold to buyers who are resident overseas?
8. **Proportion of new homes sold to overseas buyers:** The York research found that sales to buyers registered overseas accounted for 13% of all new build property sales in the sample between April 2014 and March 2016. This means that 87% of all new build market sale homes, almost eight in nine, were sold to UK-based buyers. When new build affordable homes are included, the research found that of all the new homes built in London, 6,204 homes, or 10% of the total, were sold to overseas buyers, i.e. nine in ten are sold to UK-based buyers.
9. **Trend over the study period:** The LSE research concluded that sales to overseas buyers declined over the period 2014-16. In contrast, the York research found that sales had risen from 10.5% in 2014 to 17.9% in 2016. This divergence is explained by the differences in methodologies used by the two research organisations. Property agents reported that off-plan sales to overseas buyers had hit a relative peak in 2011-14, with declines since then. Homes sold off-plan during this period would often have been on schemes that did not complete (when the title deed is registered with the Land Registry) until 2014-16. Therefore the peak seen in off-plan sales to overseas buyers by agents in 2011-14 manifested itself in a subsequent peak in completions of sales contracts three years later.
10. **Differences across London:** The research concluded that the proportion of overseas buyers is generally greater in central London. Table 2 below shows that overseas buyers accounted for 36% of sales of new build homes in the prime boroughs (as defined above in Table 1), but only 6% of new build sales in outer London boroughs, although these outer boroughs accounted for 42% of all new build sales. This picture is confirmed by property agents who focus on the overseas market, particularly in central London. Data from these agents shows that 38% of their sales between 2014-16 were to overseas buyers, rising to 50% in prime central London (given their focus on central London and the overseas market, the LSE report makes clear that upward bias will apply to their estimates).

Table 2 –Land Registry data showing proportion of sales to overseas buyers across London 2014-16 (University of York report, Figure 2.3 & Annex 3)

Area of London	Proportion of new build homes sold to overseas buyers	Proportion of all London new build sales	Total proportion of homes sold to overseas buyers
Prime	36%	7%	2.5%
Inner	16%	16%	2.6%
New Growth	16%	35%	5.6%
Outer	6%	42%	2.5%
Average across London			13.2%

11. **Country of residence of overseas buyers:** Both the LSE and York found that the highest proportion of overseas buyers are from Asia, primarily Hong Kong, Singapore and China. The most common country of residence for individual overseas buyers was Hong Kong (28% of all overseas sales) and the second most common was Singapore (20% of all overseas sales). Sales to residents in these countries somewhat reflected the nature of development being undertaken in London. For example, Malaysian buyers were relatively more common in Wandsworth, possibly due to development being undertaken by the Malaysian company SP Setia building at Battersea Power Station, and Chinese buyers were relatively more common in Greenwich, possibly reflecting building by the Chinese company Knight Dragon on the Greenwich Peninsula.
12. **Sales to overseas-based companies:** Of all the new homes sold in London in the sample period, just under 2% were sold to companies registered overseas. 15% of the sales to overseas buyers were to companies registered overseas, more than double the proportion (6.6%) of sales that were to companies overall. Of the companies based overseas, 32% were registered to the Channel Islands, 22% in the British Virgin Islands, and 14% in Hong Kong.
13. **Value of homes sold to overseas-based companies:** York’s research found that just over half (50.5%) of overseas sales were at values between £200,000 and £500,000 and 0.8% of overseas sales were at a value above £5m. The GLA has assessed this finding against its own analysis of Land Registry data to determine how representative these purchases are of the wider London housing market. Table 3 below shows the spread of sale prices of all new build homes in London over the same period (i.e. including both sales to overseas and UK-based purchasers). It shows that overseas buyers are ‘under’ represented in purchases between £200,000 to £500,000 compared to the market generally, but ‘over’ represented in purchases over £5m compared to the market generally, being twice as likely as the typical buyer in this period to buy a home priced over £5m.

Table 3 - New build home sales in London by price paid - 2014-2016*

Sale price	Proportion of new build homes sold to overseas buyers	Proportion of all new build home sales
£200k - £500k	50.5%	61.8%
£500k - £1m	32.6%	28.9%
£1m - £5m	16.2%	8.8%
Over £5m	0.8%	0.4%

Source - York and GLA analysis of Land Registry Price paid data

*GLA analysis of Land Registry data excluded homes sold below £200,000 to enable like-for-like comparison with research sample

ii. What proportion of new homes is kept empty and how many of these are owned by foreign buyers?

14. **Overall picture:** According to the LSE research, at least 70% of homes bought by overseas buyers were likely bought as rental investments. Assuming these had almost 100% occupancy then, of all the market homes built in London in this period, approximately 4% were sold to overseas buyers and might potentially be not regularly occupied¹. The difference between this figure and the official London-wide average for long term empty homes (0.6%²) is mostly explained by the fact that the majority of the former are still occupied occasionally, e.g. by the owners for business or leisure purposes, or by members of the owner's family, often for the purposes of living in London while attending university. There is also often a time lag between completion of a home and it being rented out.
15. **Reasons for overseas purchases:** The LSE research found that overseas buyers buy homes in London for three main reasons: as an investment to let out; to accommodate members of their family (often students coming to the UK to attend university); and/or as a London home for business or leisure visits. The evidence was not conclusive as to the balance between these three reasons, but it suggested that the overwhelming majority of homes were bought for investment and rental purposes, accounting for between 70-85% of such sales.
16. **Occupancy rates in homes bought for investment purposes:** Where homes are bought for investment purposes, it is clearly in the owners' interest to have the units tenanted. The LSE's interviews with developers, building managers and concierges suggested that a very high proportion of units bought for rental purposes were let out, with occupancy rates of up to 95% in schemes completed some time ago. Note that schemes rarely have 100% occupancy because there are generally always residents moving in or moving out, with gaps in between.
17. **Occupancy rates in homes bought for personal or family use:** A range of occupancy was identified for homes bought as second homes, with periods of occupancy sometimes for as little as a few weeks a year, although there was evidence that even these homes were, on average, occupied for around half of the time.
18. **Empty homes:** Almost no evidence was found of units being left entirely empty, with the LSE's research reporting estimates at 1% or less of new units. A number of respondents to the LSE research said that there may be an inaccurate perception that units are empty because the private units in a development will usually complete construction sometime after the affordable homes, giving a mistaken impression of vacancy. Further, once large developments are complete, it can take up to two years for occupancy rates to build up, and so homes may be vacant for an initial period before being lived in full time, which may account for perceptions that homes are left empty.

¹ Calculated by multiplying the proportion of homes in the sample bought by overseas buyers (13%) by the proportion that are not bought as rental investments (approximately 30%).

² GLA analysis of DCLG live table 615

19. Within the context of the very small proportion of empty homes overall, the York research used an innovative methodology³ that may suggest higher rates of vacancy for homes in certain locations or types of properties. It is important to note that the research defined 'vacancy' as being homes that are lived in for part of the time as well as empty homes. Higher rates were found in homes in prime London, more expensive homes (particularly those worth more than £5m), and homes bought by overseas buyers. York's research suggested that homes bought by overseas buyers were much more likely to fall into this group compared with ones bought by UK buyers, with higher inferred under-occupancy rates for such homes compared to homes owned by UK buyers. This does not mean that these homes are empty, but rather that they did not exhibit the characteristics that would be expected of homes occupied full time.
20. Taken together with the LSE's research finding set out in paragraphs 14 and 15, this supports a conclusion that the majority of homes bought by overseas buyers are lived in full-time as primary residences, though the levels of homes not occupied full time appear greater than amongst homes owned by UK buyers. The LSE research shows that the vast majority of those homes with overseas owners that are not lived in on a full-time basis are lived in for at least part of the year, with homes in some developments being occupied for an average of 190 days a year.
21. The differential highlighted by York between levels of inferred occupancy amongst homes owned by UK buyers and those owned by overseas buyers would be expected to narrow over time due to the properties bought by overseas buyers being advertised for letting and subsequently rented out, or being occupied by children of the owner coming to London to attend university. It should be noted that in those boroughs where the inferred under-occupancy rate was highest, the absolute number of new homes built was lowest, meaning that the overall effect on London-wide under-occupancy rates was limited.

iii. How reliant is development viability on sales to overseas buyers?

22. **Overall picture:** The LSE research found that overseas sales were very important to the development industry in the post-recession period after 2009, with relatively high numbers of sales to investors based overseas. Interviewees from across the industry felt that, in the absence of such sales, housing supply in London would have dramatically decreased in that time. In addition, large scale, high density development has required high levels of upfront overseas capital investment in order to achieve delivery.
23. **Role of overseas buyers in supporting development viability:** The LSE research found that pre-sales (also called 'off-plan' or 'advance' sales) are key to ensuring that development happens, whether because of a requirement of lenders, or to reduce the risks inherent in development in London. Such risk is a function of the higher density

³ This calculated an inferred occupancy rate of a home by looking at a range of data that suggest occupancy, such as presence by an occupier on the electoral roll or registration of that address for commercial transactions. A baseline rate of expected occupancy was established with reference to towns with limited numbers of overseas buyers and second homes. The London Land Registry sample was then assessed against this baseline to give a relative level of occupancy, i.e. when compared to what might be expected, what proportion of homes exhibit characteristics of homes that are not lived in full time. Since these results are based on a methodology that relies on relative calculations, the inferred under-occupancy rates more confidently suggest relative levels of under-occupancy, rather than offering confidence that a particular absolute percentage of homes are under occupied. The full details of the methodology are set out in the University of York report.

development being undertaken in London, where large blocks of apartments require upfront finance and security that sales will happen.

24. **Potential impact on UK buyers:** The LSE research found that lenders for housing development will require anywhere between 40-60% of the units in a development to be pre-sold before construction can start. Most developers stated a preference for selling to UK buyers and only sold homes overseas because there was inadequate pre-sales demand from UK residents, with most developers citing the length of mortgage offers as a major constraint, as there may be three or four years between contracts being exchanged and the completion of a development, although this time period varied.
 - iv. How does overseas financing of development contribute to housing supply?
25. **Different forms of overseas financing:** LSE found that almost all of London's very large residential development sites have needed overseas investment to get them underway. Investment from overseas takes a number of forms, including as developers, equity financiers, purchasers of built developments (this is especially the case for many Build to Rent⁴ schemes) or investors in UK housebuilders.
26. **Effects on housing supply:** The LSE research did not quantify the effect of this scale of investment in terms of specific housing numbers, but did conclude that although some development would be likely to have occurred at some point on major development sites without overseas buyers, the number of units produced and the speed of development is likely to have been less.
27. **Importance of overseas investment in London:** Overseas investment at an institutional level was clearly important for London's housing supply according to the LSE research— of a study of 177 residential schemes of over 20 market units, overseas-based lenders were responsible for 46 (26%). There is clearly an appetite internationally to lend for residential development in London. This appetite seems to be highly focused on London as opposed to the UK, too - the research found that the majority of overseas institutional investment was in London, with 106 of 143 major residential transactions since 2012 in the city. London transactions accounted for 85% of the recorded value of transactions in the whole of the UK.

Annexes

- A. The research brief
- B. LSE report
- C. University of York Report

⁴ Purpose built homes for long term professional letting